



Hooker Furnishings Corp. (HOFT)

Updated December 12th, 2024, by Aristofanis Papadatos

Key Metrics

Current Price:	\$18	5 Year CAGR Estimate:	6.5%	Market Cap:	\$182 M
Fair Value Price:	\$18	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	12/13/24
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	-0.3%	Dividend Payment Date:	12/30/24
Dividend Yield:	5.1%	5 Year Price Target	\$20	Years Of Dividend Growth:	9
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Hooker Furnishings is a designer, marketer and importer of casegoods (wooden and metal furniture), leather furniture, fabric-upholstered furniture, lighting, accessories and home décor for residential, hospitality and contract markets. The company also domestically manufactures premium residential custom leather and fabric-upholstered furniture. Hooker Furnishings is the largest supplier of casegoods and upholstery in the U.S. and has access to more than 75% of all retail furniture distribution. It was founded in 1924, it is headquartered in Martinsville, Virginia, and currently trades with a market capitalization of \$182 million.

In early December, Hooker Furnishings reported (12/5/24) financial results for the third quarter of fiscal 2025 (the fiscal year of the company ends at the end of January 2025). Net sales decreased -11% over the prior year's quarter due to sustained headwinds in the housing market and loss of sales due to the bankruptcy of a customer. The combination of high interest rates and high home prices have been exerting pressure on the business of Home Furnishings over the last two years. As a result, the company switched from earnings-per-share of \$0.65 to a loss per share of -\$0.39 and missed the analysts' consensus by a massive \$0.67. The company has missed the analysts' estimates for 4 consecutive quarters.

We now expect Hooker Furnishings to post a loss per share of -\$0.25 instead of earnings-per-share of \$0.05 in the full fiscal year. Management stated that it expects business performance to improve gradually but we note that the company has reported a sharp decrease in sales in each of the last 6 quarters. If inflation continues to cool and the Fed keeps reducing interest rates, the company has good chances of improving its business performance from next year.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$1.16	\$1.49	\$2.18	\$2.42	\$3.38	\$1.44	-\$0.88	\$0.97	\$1.10	\$0.91	-\$0.25	\$1.57
DPS	\$0.40	\$0.40	\$0.42	\$0.50	\$0.57	\$0.61	\$0.66	\$0.74	\$0.82	\$0.89	\$0.92	\$1.08
Shares¹	10.8	10.8	11.6	11.7	11.8	11.8	11.8	12.0	11.2	10.7	10.5	10.0

Hooker Furnishings has exhibited a remarkably volatile business performance and has failed to grow its earnings over the last decade. The company grew its earnings consistently until 2020 but it was then severely hurt by the coronavirus crisis. When that crisis subsided, Hooker Furnishings partly recovered but it was then hit by the surge of inflation, which led the Fed to raise interest rates to a 23-year high. High home prices and high interest rates, which reduce the demand for new houses, have formed a strong headwind to the business of Hooker Furnishings.

Fortunately, the future looks brighter than the last few years for Hooker Furnishings. Inflation has finally moderated and the Fed has begun to reduce interest rates. If this trend remains in place in the upcoming years, demand for new houses is likely to strengthen. As a result, Hooker Furnishings is likely to enjoy a recovery of its sales and its earnings in the upcoming years. On the other hand, it is prudent to be somewhat conservative in growth expectations, given the volatility of this business. Overall, we expect 2.0% average annual growth of earnings-per-share over the next five years vs. mid-cycle earnings-per-share (10-year average) of \$1.42.

¹ In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	13.2	16.3	12.6	17.1	11.1	17.1	---	32.3	15.7	21.8	12.7	12.5
Avg. Yld.	2.6%	1.6%	1.5%	1.2%	1.5%	2.5%	2.8%	2.4%	4.7%	4.5%	5.1%	5.5%

Excluding the years in which depressed earnings resulted in abnormally high price-to-earnings ratios, Hooker Furnishings has traded at an average price-to-earnings ratio of 14.7 over the last decade. Due to the choppy performance record of the company and the strong headwinds facing its business, we assume a fair price-to-earnings ratio of 12.5. The stock is currently trading at 12.7 times its mid-cycle earnings-per-share of \$1.42. If the stock trades at its fair valuation level in five years, it will incur a -0.3% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	34%	27%	19%	21%	17%	42%	---	76%	75%	98%	65%	69%

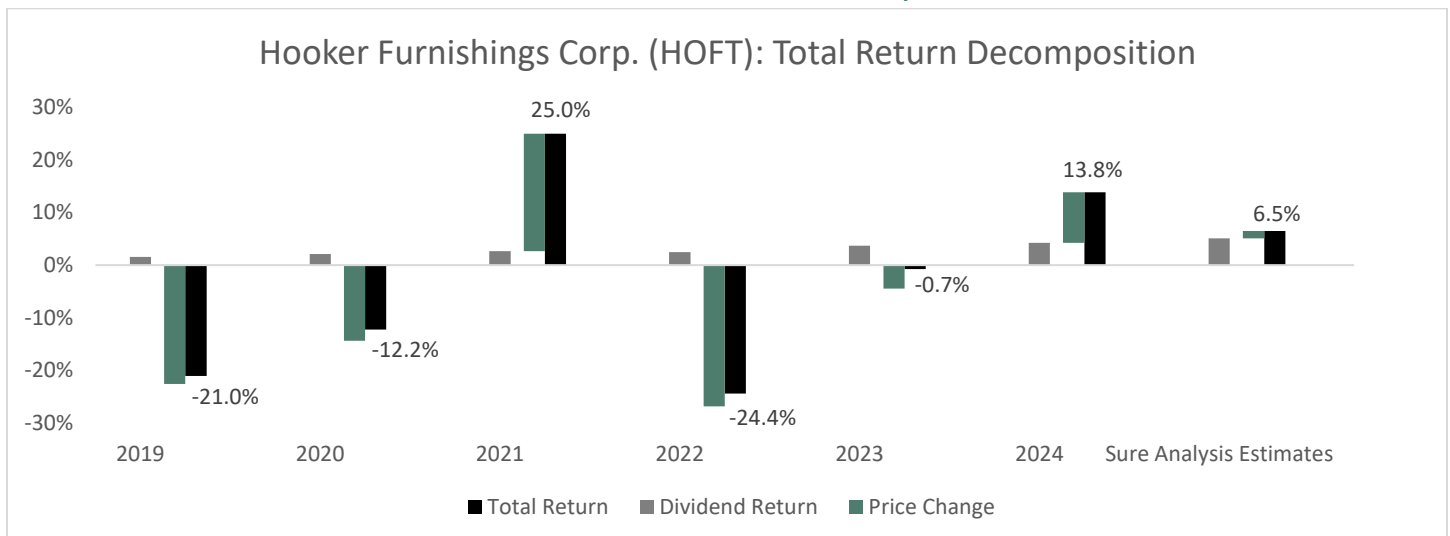
Hooker Furnishings has exhibited highly cyclical business performance and has proved vulnerable to recessions and downturns of the housing industry. It is thus evident that the company lacks a meaningful competitive advantage. The stock is unsuitable for investors who cannot tolerate high stock price volatility and cannot wait patiently for the prolonged downturns of this business to subside. Hooker Furnishings has paid a dividend for 50 years in a row but its management is not committed to a growing dividend; it is committed to “paying a meaningful dividend”. Therefore, the 5.1% dividend is far from safe.

On the bright side, Hooker Furnishings should be praised for maintaining a rock-solid balance sheet, which enables the company to endure the downturns of its business. The retailer has net debt of only \$43 million, which is only 24% of the market cap of the stock and about four times the earnings of the company last year. Thanks to the solid balance sheet of Hooker Furnishings, we expect the company to recover from the ongoing downturn in the upcoming years.

Final Thoughts & Recommendation

Hooker Furnishings has plunged -32% this year due to the impact of high interest rates and inflation on its business. We expect the company to recover in the upcoming years. The stock could offer a 6.5% average annual total return over the next five years thanks to 2.0% growth and a 5.1% dividend, partly offset by a -0.3% valuation drag. It maintains its hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	244	247	621	621	684	611	540	594	583	433
Gross Profit	63	69	135	135	147	114	113	102	93	109
Gross Margin	25.7%	27.8%	21.7%	21.7%	21.5%	18.7%	20.9%	17.1%	16.0%	25.1%
SG&A Exp.	44	44	87	87	92	89	80	84	96	93
D&A Exp.	3	3	7	7	7	7	7	8	9	9
Operating Profit	19	24	45	45	53	23	30	15	(6)	12
Operating Margin	7.8%	9.8%	7.3%	7.3%	7.7%	3.7%	5.5%	2.5%	-1.0%	2.9%
Net Profit	13	16	28	28	40	17	(10)	12	(4)	10
Net Margin	5.1%	6.6%	4.6%	4.6%	5.8%	2.8%	-1.9%	2.0%	-0.7%	2.3%
Free Cash Flow	20	20	25	25	4	36	67	13	(26)	49
Income Tax	7	8	18	18	12	5	(4)	3	(2)	3

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	171	182	319	350	370	394	352	375	382	344
Cash & Equivalents	39	54	40	31	11	36	66	69	19	43
Accounts Receivable	24	24	93	93	113	87	83	74	62	51
Inventories	45	44	75	84	105	93	70	75	97	62
Goodwill & Int. Ass.	1	1	49	78	76	73	27	24	47	44
Total Liabilities	28	26	121	121	107	120	95	113	146	118
Accounts Payable	10	9	37	33	41	25	32	31	16	16
Long-Term Debt	-	-	48	53	35	30	-	-	24	23
Shareholder's Equity	143	156	198	229	263	274	258	261	236	226
LTD/E Ratio	-	-	0.24	0.23	0.13	0.11	-	-	0.10	0.10

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	7.7%	9.2%	11.3%	8.4%	11.1%	4.5%	-2.8%	3.2%	-1.1%	2.7%
Return on Equity	9.1%	10.8%	16.0%	13.2%	16.2%	6.4%	-3.9%	4.5%	-1.7%	4.3%
ROIC	9.1%	10.8%	14.1%	10.7%	13.7%	5.7%	-3.7%	4.5%	-1.7%	3.9%
Shares Out.	10.8	10.8	11.6	11.7	11.8	11.8	11.8	12.0	11.2	10.7
Revenue/Share	22.69	22.86	53.21	53.21	58.01	51.60	45.68	49.59	50.30	39.97
FCF/Share	1.84	1.87	2.11	2.11	0.38	3.07	5.67	1.05	(2.24)	4.49

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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